CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 22, 2001

H.R. 442

A bill to amend title 38, United States Code, to increase the maximum amount of a home loan guarantee available to a veteran

As introduced on February 6, 2001

SUMMARY

H.R. 442 would increase the maximum amount that the Department of Veterans Affairs (VA) can guarantee on a home loan from $50,750 to $63,175. CBO estimates that enacting this legislation would increase direct spending by $6 million in 2002, $33 million over the 2002-2006 period, and $144 million over the 2002-2011 period. Because the bill would affect direct spending, pay-as-you-go procedures would apply. H.R. 442 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 442 is shown in the following table. This estimate assumes the legislation will be enacted by October 1, 2001. The costs of this legislation would fall within budget function 700 (veterans benefits and services).

BASIS OF ESTIMATE

The bill would increase the maximum loan guarantee amount on VA home loans from $50,750 to $63,175, thereby raising the maximum loan amount from $203,000 to $252,700. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) Based on information from VA, CBO estimates that the bill would result in 8,000 new loans a year over the 2002-2011 period. In addition, roughly 3,000 loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee.

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
DIRECT SPENDING						
Spending Under Current Law for VA Home Loan Program						
Estimated Budget Authority	-991	262	275	283	288	294
Estimated Outlays	-991	262	275	283	288	294
Proposed Changes						
Estimated Budget Authority	0	6	6	6	7	8
Estimated Outlays	0	6	6	6	7	8
Spending Under H.R. 442 for VA Home Loan Program						
Estimated Budget Authority	-991	268	281	289	295	302
Estimated Outlays	-991	268	281	289	295	302

By boosting participation in the VA home loan program, H.R. 442 would increase direct spending in three different ways. First, added subsidy costs for 11,000 guaranteed loans a year (8,000 new loans and 3,000 loans with larger loan amounts) would average $6 million a year over the 2002-2008 period and rise to $26 million a year over the 2009-2011 period. The larger increases over the 2009-2011 period occur because, under current law, certain loan fees expire in 2009, resulting in a higher subsidy cost beginning in that year. Second, some of those 11,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. CBO estimates that the subsidy cost of these vendee loans would be less than $500,000 each year until 2011. Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such guarantees would be less than $500,000 each year until 2005 and would eventually reach $4 million in 2011.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in outlays	0	6	6	6	7	8	9	10	30	31	31
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 442 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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